

**The ARC Baton Rouge
Baton Rouge, Louisiana
June 30, 2006**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

1/10/07

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October 23, 2006

Independent Auditor's Report

The Officers and Board of Directors
The ARC Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of financial position of

**The ARC Baton Rouge
(A Non-Profit Organization)
Baton Rouge, Louisiana**

as of June 30, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The ARC Baton Rouge as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006, on our consideration of The ARC Baton Rouge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Yours truly,

Hawthorn, Weymouth & Canall, L.L.P.

The ARC Baton Rouge
Statements of Financial Position
June 30, 2006 and 2005

A s s e t s		<u>2006</u>	<u>2005</u>
Assets			
Cash and cash equivalents		\$326,016	\$415,771
Investments		70,437	76,328
Receivables			
Trade		163,330	72,340
State contracts		413,860	497,378
Federal contracts		2,905	4,343
Notes receivable		38,103	40,752
Inventory		17,615	13,586
Property, Plant and Equipment, Net		1,218,322	1,301,990
Deposits		<u>25,041</u>	<u>25,041</u>
<u>Total assets</u>		<u>2,275,629</u>	<u>2,447,529</u>
Liabilities and Net Assets			
Liabilities			
Line of credit			148,141
Accounts payable		123,324	122,223
Accrued expenses		224,246	200,628
Note payable - vehicle			18,089
Capital lease			10,180
Accrued pension cost		<u>172,708</u>	<u>241,612</u>
<u>Total liabilities</u>		520,278	740,873
Net Assets			
Unrestricted		<u>1,755,351</u>	<u>1,706,656</u>
<u>Total liabilities and net assets</u>		<u>2,275,629</u>	<u>2,447,529</u>

The accompanying notes are an integral part of these financial statements.

**The ARC Baton Rouge
Statements of Activities
Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<u>Unrestricted Net Assets</u>		
Unrestricted Revenue and Gains		
State contracts	\$4,517,226	\$4,680,843
Federal awards	237,051	392,117
Program sales and service fees	633,577	638,560
Capital Area United Way	262,755	279,357
Contributions	49,156	95,418
Investment return	6,316	9,484
Public grants and other income	<u>265,345</u>	<u>52,113</u>
<u>Total unrestricted revenue and gains</u>	<u>5,971,426</u>	<u>6,147,892</u>
Expenses		
Program services	5,303,433	5,278,726
General and administrative	616,572	464,293
Fund raising	<u>2,726</u>	<u> </u>
<u>Total expenses</u>	<u>5,922,731</u>	<u>5,743,019</u>
Increase in Net Assets	48,695	404,873
Net Assets, beginning of year	<u>1,706,656</u>	<u>1,301,783</u>
Net Assets, end of year	<u>1,755,351</u>	<u>1,706,656</u>

The accompanying notes are an integral part of these financial statements.

**The ARC Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2006**

	Metro Enterprises Business	Metro Enterprises Rehabil- itation	Early Intervention Programs	ARC Day School	Respite Care Programs	Louisiana Career Development Center	Vocational Services Placement	Community Services	Community Life	Other Programs	Total Program Services	Manage- ment General and Other	Fund Raising	2006 Totals
Compensation and Related Benefits														
Salaries	\$330,064	\$501,229	\$436,349	\$144,660	\$1,005,409	\$274,400	\$143,022	\$89,447	\$741,191	\$6,495	\$3,672,266	\$302,577	\$2,500	\$3,977,343
Payroll taxes														
and insurance	26,924	37,998	31,661	11,674	80,456	21,056	10,313	6,872	58,946	587	286,487	20,692	128	307,367
Employee health	4,672	62,170	33,471	6,378	75,293	20,617	15,342	9,927	62,896		290,766	68,701		359,467
Retirement and life plans	1,576	30,989	25,977	11,037	14,227	15,052	8,725	5,189	5,309		118,081	7,767		125,848
	363,236	632,386	527,458	173,749	1,175,385	331,125	177,402	111,435	888,342	7,082	4,367,600	399,737	2,628	4,769,965
Contractual services	62,037	84									62,121			62,121
Professional services			37,467		1,525	24,666		2,345	3,291		69,294	24,689		93,983
Supplies	2,648	4,439	5,295	9,608	8,663	2,116	669	1,880	3,247	36	38,601	5,499		44,100
Utilities	16,805	37,853	23,740	322	16,920	21,255	9,850		5,446	1,477	133,668	15,116		148,784
Maintenance and equipment rental	7,403	14,114	14,913	873	8,926	7,541	1,843	130	2,689	65	58,497	13,708		72,205
Memberships dues	153				180	408	76		57		874	18,365		19,239
Conferences and meetings	160		853	15	1,319	5,831	222	408	1,844		10,966	6,472		17,438
Office expenses	147		1,632		416	674	485		326		3,795	5,203		8,998
Worker's compensation	13,012	19,759	17,201	5,703	39,635	10,817	5,638	3,526	29,219	256	144,766	11,928	98	156,792
General insurance	264	40	551								855	73,690		74,545
Vehicle expenses	8,236	12,367			2,360						22,963			22,963
Program transportation	295	22,162	13,732	54	24,037	3,820	2,723	52	23,788	8	90,671	293		90,964
Interest expense		977												
Other expenses	1,458	4,178	3,744	639	2,575	2,121	529	2,678	2,034	(454)	19,502	4,520		5,497
Assistance to individuals			56			41		182,341	1,200		183,638	155		183,793
Depreciation	20,770	28,379	6,328	1,266	9,705	23,431	4,766				94,645	5,339		99,884
Total functional expenses	496,624	777,167	652,970	192,229	1,291,646	433,846	204,203	304,795	941,483	8,470	5,303,433	616,572	2,726	5,922,731

The accompanying notes are an integral part of these financial statements.

The ARC Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2005

	Metro Enterprises Business	Metro Enterprises Rehabilitation	Early Intervention Programs	Respite Care Programs	Louisiana Career Development Center	Vocational Services Placement	All Other Programs	Total Program Services	Management General and Other	2005 Totals
Compensation and related benefits										
Salaries	\$282,846	\$508,566	\$592,619	\$1,140,669	\$310,071	\$138,261	\$699,498	\$3,672,530	\$252,736	\$3,925,266
Payroll taxes and insurance	50,970	45,820	54,233	190,378	27,980	12,006	65,383	446,770	21,147	467,917
Employee health	5,447	64,901	49,029	110,723	26,038	14,804	71,383	342,325		342,325
Retirement and life plans	1,289	20,142	20,231	8,996	10,368	5,121	7,076	73,223	11,092	84,315
	340,552	639,429	716,112	1,450,766	374,457	170,192	843,340	4,534,848	284,975	4,819,823
Contractual services	62,049	228						62,277		62,277
Professional services		275	39,803	67			33	40,178	23,078	63,256
Supplies	3,572	2,442	11,094	8,260	3,359	799	3,877	33,403	5,423	38,826
Utilities	14,861	32,362	19,655	13,957	15,256	10,044	4,587	110,722	14,146	124,868
Maintenance and equipment rental	5,799	8,646	14,527	7,007	3,894	2,226	2,153	44,252	9,449	53,701
Membership dues	131	33	382	131	370	80	33	1,160	23,347	24,507
Travel, conferences and meetings	66	24,653						24,719		24,719
Office expenses	193	152	1,757	934	375	76	1,191	4,678	10,737	15,415
General insurance			424					424	59,468	59,892
Vehicle expenses	6,873	7,015		4,769				18,657		18,657
Program transportation	531	2,396	25,755	35,488	19,021	3,297	20,574	107,062	10,799	117,861
Interest expense		281						281		
Other expenses	1,284	5,341	4,510	4,488	1,840	433	17,635	35,531	13,555	13,836
Assistance to individuals			82	15	45		155,733	155,875	9,066	44,597
Depreciation	23,043	31,796	7,309	12,059	25,168	5,284		104,659	250	156,125
	458,954	755,049	841,410	1,537,941	443,785	192,431	1,049,156	5,278,726	464,293	5,743,019
Totals										

The accompanying notes are an integral part of these financial statements.

The ARC Baton Rouge
Statements of Cash Flows
Years Ended June 30, 2006 and June 30, 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Increase in net assets	\$48,695	\$404,873
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	99,884	104,659
Loss on disposal of fixed asset	214	
Net unrealized (gain) loss	261	(4,348)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(6,034)	(203,498)
Inventory	(4,029)	1,136
Deposits		(5,395)
Increase (decrease) in:		
Accounts payable	1,101	81,965
Accrued payroll	23,618	46,774
Accrued pension cost	<u>(68,904)</u>	<u>(34,931)</u>
<u>Net cash provided by operating activities</u>	<u>94,806</u>	<u>391,235</u>
Cash Flows From Investing Activities		
Purchase of property and equipment, net	(16,430)	(19,423)
Net change in investments	5,630	3,338
Collections on notes receivable	<u>2,649</u>	<u>2,218</u>
<u>Net cash provided (used) by investing activities</u>	<u>(8,151)</u>	<u>(13,867)</u>
Cash Flows From Financing Activities		
Payments on notes payable - vehicle	(18,089)	(11,165)
Capital lease payments	(10,180)	(11,834)
Payments on line of credit	<u>(148,141)</u>	<u>(49,980)</u>
<u>Net cash provided (used) by financing activities</u>	<u>(176,410)</u>	<u>(72,979)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(89,755)	304,359
Cash and Cash Equivalents, beginning of year	<u>415,771</u>	<u>111,412</u>
Cash and Cash Equivalents, end of year	<u>326,016</u>	<u>415,771</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	<u>5,497</u>	<u>13,836</u>

The accompanying notes are an integral part of these financial statements.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 1-Nature of Organization

The ARC Baton Rouge (Association) is a not-for-profit organization which promotes, develops, monitors, supports and directly provides services to improve the well being of people with disabilities and their families from East Baton Rouge and surrounding parishes. The Association has various funding resources that includes the Capital Area United Way Agency and federal and state contracts and grants.

The Association offers the following service programs:

Metro Enterprises - provides day rehabilitation services and jobs which include janitorial, lawn care, and shredding services, and manufacturing jobs producing engineering stakes, flange covers and candles.

Early Intervention - a service to infants and toddlers with special needs, ages birth to three years. The services included are special instruction, parental education and counseling, family service coordination, early communication and development therapy, physical therapy, occupational therapy, social work services, and nursing services.

Respite Care Programs - provides emergency and periodic care for people with disabilities to give the regular caregiver a break for everyday stress. Respite Care Programs also provide in-home personal care attendants for individuals whose disability prohibits their functioning independently.

Vocational Services Placement - offers job placement services to people with developmental disabilities, mental retardation or learning disabilities ages sixteen and over. The program works with local businesses to establish internship and employment opportunities.

Louisiana Career Development Center - provides career training and support, as well as recreational opportunities to deaf and deaf-blind individuals in Baton Rouge and surrounding areas.

ARC Day School - offers developmentally appropriate curriculum to all children, including those with special needs. The program uses child-initiated, teacher supported play to promote mental, physical and emotional growth and development in all children.

Community Life - is a supported living program that enables people with disabilities to live independently and be included in the community. Community life provides services which include home living assistance, safety instruction, self-care, community leisure outings, and transportation services.

Community Services - provides recreation opportunities for children and adults with disabilities in the community.

Note 2-Significant Accounting Policies

A. Basis of Accounting

The financial statements are presented using the accrual basis of accounting.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 2-Significant Accounting Policies (Continued)

B. Basis of Presentation

The Association has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SPAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted assets. Unrestricted net assets include those net assets whose use by the Association is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those assets whose use by the Association has been limited by donors to (a) later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Association's use of the asset. The Association does not have any temporarily or permanently restricted net assets.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

The Association considers all funds on hand and with financial institutions to be cash equivalents.

E. Receivables

The Association considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

F. Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method.

G. Investments

Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value. Fair value is determined using quoted market prices (where available), or if not available, estimated fair values based on quoted market prices of financial instruments with similar characteristics. All other investments are carried at the lower of cost or market. Recognized gains and losses on investments are reflected in the statement of activities. Dividends and interest income are recorded during the period earned.

H. Property and Equipment

Property and equipment are recorded at cost. Property and equipment donated for operations are recorded as additions to net assets at fair value at the date of receipt and depreciated using the straight-line method of depreciation over the useful lives of the assets, which range from 5-29 years.

Expenditures for major additions of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 2-Significant Accounting Policies (Continued)

I. Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Association reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

J. Grant Contracts

The Association depends significantly on grant contract reimbursements to carry out its program activities. This revenue is disclosed as program revenue on the statements of activities.

Grant revenue is recorded as related expenses are incurred, and reimbursement requests are submitted to the grantor agency.

K. Retirement Plan

The retirement plan is a defined benefit plan which covers substantially all full-time salaried employees.

L. Income Taxes

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

M. Functional Expenses

The Association allocates functional expenses primarily by specific identification of program expenses which include salaries of personnel assigned to specific programs. However, certain administrative salaries and related expenses and other general expenses are allocated using percentages which are adjusted annually. These percentages coincide with grant agreements and budgets.

N. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's financial statement presentation.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 3-Investments

Investments in money markets and certificates of deposits are stated at cost and equity investments are stated at market value as quoted by national publications. At June 30, 2006 and 2005 investments are as follows:

	<u>2006</u>	<u>2005</u>
Money Markets	\$8,970	\$16,840
Certificates of deposit with maturities from one to two years and interest rates from 4.0% to 4.8%.	49,724	48,006
Equity investments - corporate stock	<u>11,743</u>	<u>11,482</u>
	<u>70,437</u>	<u>76,328</u>

Investment income from cash equivalents and investments is comprised of the following for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unrestricted		
Dividends and interest	\$6,577	\$5,136
Net unrealized gains (loss)	<u>(261)</u>	<u>4,348</u>
<u>Total</u>	<u>6,316</u>	<u>9,484</u>

Note 4-Note Receivable

	<u>2006</u>	<u>2005</u>
The Association sold facilities on Wayne Drive for \$57,000 in 1995 and financed the sale. Terms are monthly installments of \$500, and include 9% interest per annum maturing January, 2016. The note is secured by the land and building.	<u>\$38,103</u>	<u>\$40,752</u>

Maturities of note receivable for the next five years following ending June 30, are as follows:

2007	\$2,447
2008	2,909
2009	3,182
2010	3,480
2011	3,807
Thereafter	<u>22,278</u>
	<u>38,103</u>

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 5-Property and Equipment

A summary of property and equipment at June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Buildings and improvements	\$2,174,627	\$2,174,627
Furniture and equipment	519,635	586,184
Vehicles	<u>128,597</u>	<u>152,729</u>
	2,822,859	2,913,540
Less depreciation to date	<u>1,924,534</u>	<u>1,931,547</u>
	898,325	981,993
Land	<u>319,997</u>	<u>319,997</u>
<u>Property and equipment, net</u>	<u>1,218,322</u>	<u>1,301,990</u>

Note 6-Line of Credit

The Association has a line of credit with a financial institution for \$200,000, due on demand, of which no amount was drawn at June 30, 2006 and \$148,141 was drawn at June 30, 2005. The interest rate at June 30, 2006 and 2005 was 8.25% and 6.00%, respectively. The line is secured by the building on Kelwood Avenue.

Note 7-Notes Payable

	<u>2006</u>	<u>2005</u>
The Association obtained a vehicle loan in April of 2002 for \$19,927 with monthly payments of \$397 for 5 years at an annual interest rate of 7.25%. The vehicle was collateral for this loan.	-	\$7,807
The Association financed three vehicles in September of 2003 for \$21,600 with monthly payments of \$681 for 3 years at an annual interest rate of 8.10%. The three vehicles were the collateral for this loan.	<u>--</u>	<u>10,282</u>
	<u>--</u>	<u>18,089</u>

Note 8-Capital Lease

The Association is the lessee of major air conditioning equipment under a capital lease expiring in June 2006. The asset and liability under the capital lease was recorded at the lower of the present value of the minimum lease payments as the fair value of the asset. The terms were monthly payments of \$1,208 for 33 months at an implied interest rate of 15.89%. The lease was paid in full in 2006, the balance at June 30, 2005 was \$10,180.

Note 9-Pension Plan

The Association has a Defined Benefit pension plan which covers substantially all of its employees who meet eligibility requirements. Benefits under the plan are generally based on the employee's compensation during the highest five consecutive calendar years' salary during the last ten completed calendar years of service before retirement. The pension plan is funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 9-Pension Plan (Continued)

Pension expense for the years ended June 30, 2006 and 2005 was \$113,096 and \$95,133, respectfully.

The following sets forth the plan's funding status and the amounts recognized in the Company's statement of financial position at June 30, 2006 and 2005 as prepared by Mutual of America.

	<u>2006</u>	<u>2005</u>
Funded Status		
Benefit obligation at June 30	\$3,149,331	\$3,143,663
Fair value of plan assets at June 30	<u>2,971,038</u>	<u>2,710,224</u>
<u>Funded status (deficit)</u>	<u>(178,293)</u>	<u>(433,439)</u>
 Prepaid (accrued) benefit cost recognized in the Statement of Financial Position	 (\$172,708)	 (\$241,612)
Change in benefit obligation due to plan amendments	\$0	(\$739,641)
Change due to assumption changes	(\$307,811)	\$336,154
 Assumptions as of June 30		
Discount rate	6.25%	5.75%
Expected long-term rate of return on plan assets	7.75%	8.00%
Rate of compensation increase per year	4.50%	5.00%
 Other Data		
Benefit cost	\$113,096	\$95,133
Employer contribution	\$182,000	\$130,064
Employee contribution	None	None
Benefits paid	\$41,843	\$48,535

Expected Future Benefit Payments

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year Beginning</u>	<u>June 30, 2005 Disclosure</u>
July 1, 2006	\$53,000
July 1, 2007	126,000
July 1, 2008	7,000
July 1, 2009	54,000
July 1, 2010	118,000
7/1/2011-2015	2,033,000

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 9-Pension Plan (Continued)

Plan Assets by Category

	<u>As of June 30, 2006</u>		<u>As of June 30, 2005</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Equity	\$1,175,891	39.58	\$1,060,503	39.13
Fixed Income	1,760,539	59.26	1,616,121	59.63
General Account	<u>34,608</u>	<u>1.16</u>	<u>33,600</u>	<u>1.24</u>
Total	<u>2,971,038</u>	<u>100.00</u>	<u>2,710,224</u>	<u>100.00</u>

Expected Long-Term Rate of Return on Plan Assets Assumption

The Expected Long-Term Rate of Return on Plan Assets assumption of 7.75% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on The ARC Baton Rouge's investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.77% - 8.88%. A rate within the best estimate range of 7.75% was selected.

Note 10-Concentration of Risk

At various times during the year, cash and cash equivalents on deposit with one banking institution exceeded the \$100,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with its balances in cash and cash equivalents, to minimize potential risk.

Credit receivables have significant concentrations of credit risk in the governmental sector in the Baton Rouge, Louisiana area. At June 30, 2006 and 2005, the portion of these receivables related to this sector was approximately 72% and 87%, respectively.

Note 11-Economic Dependency

The Association receives a majority of its revenue from funds provided through programs administered by the State of Louisiana and United Way. The program amounts are appropriated each year by the Federal and State governments and the United Way Agency. If significant budget cuts are enacted at the Federal and/or State level, the amount of the funds the Association receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Association will receive in the next fiscal year.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2006

Note 12-Contingencies - Federal and State Program

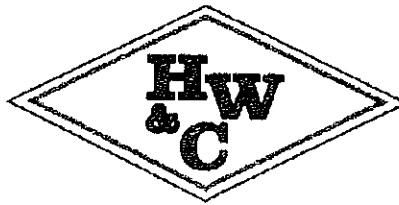
The Association participates in Federal and State programs, which are governed by various rules and regulations. Costs charged to the grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received and the collectibility of any related receivable at year end may be impaired. In management's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Audits of prior years have not resulted in any significant disallowed costs or refunds. Any costs that would be disallowed would be recognized in the period agreed upon by the grantor agency and The ARC Baton Rouge.

Note 13-Subsequent Event

In September 2006, the Association sold a piece of land for \$62,000. The transaction resulted in a loss of \$48,000 which will be charged to operations in 2007.

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

J. CHARLES PARKER, C.P.A.
LOUIS C. MCKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.



CERTIFIED PUBLIC ACCOUNTANTS

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October 23, 2006

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
The ARC - Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of The ARC Baton Rouge (A Non-Profit Organization) Baton Rouge, Louisiana, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The ARC Baton Rouge's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The ARC Baton Rouge's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies, pass-through entities, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Canall, L.L.P.

**The ARC Baton Rouge
Summary of Current Year Findings
Year Ended June 30, 2006**

No corrective action plan needed by management since no findings were reported and no management letter was issued.

**The ARC Baton Rouge
Summary of Prior Year Findings
Year Ended June 30, 2005**

No prior year findings were noted by the auditors in last years audit.